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SUBJECT: LATE OFFER MUDDIES TUPRAS PRIVATIZATION

1. (SBU) Summary: Turkish analysts are reacting positively today to yesterday's announcement that the highest bid for privatization of two-thirds of the state refinery Tupras came in at 1.3 billion USD. While the press has been critical of the offer, the bid values the overall company at 2 billion USD, which market analysts term a "reasonable" discount from its current market capitalization of 2.4 billion USD. The losing bidder, Anadolu Consortium, which includes Cukurova Holding and a Kazakh partner, briefly muddied the waters on January 14 by announcing it would raise its bid above 1.3 billion USD, but privatization officials swiftly termed this impossible, noting that it would require cancellation of the tender and recommencement of the process. Most analysts we have consulted view the winning bid as a reasonable valuation, and while reluctant to predict its ultimate disposition, note that the Privatization Administration's decision to submit it to the High Privatization Council for approval is a positive indication. End Summary.

2. (SBU) The winning bid of 1.3 billion for TUPRAS from Efremov Kautschuk GmbH (a little known Russian company that is widely believed to represent the interests of Tatneft, Russia's sixth-largest oil company) and Zorlu Holding (which only announced its intention to join in the Efremov bid on January 12) values the overall company at 2 billion USD. While the valuation represents a discount from the company's market capitalization of 2.4 billion USD, leading analysts such as Bender Securities term it a "reasonable" one. (Zorlu and Efremov would pay 50 percent in cash and the remainder in two equal yearly installments.) After the embarrassments that surrounded the attempted privatization of Petkim (won by the infamous Uzan clan but ultimately voided) and Tekel's tobacco operations (where the highest bid was less than half government expectations), observers view the result as a success, in that it exceeded market expectations. Indeed, prior to the announcement, Turkish stocks had trended down on fears that the PA would either cancel the tender or ask bidders to raise their offer. The PA's decision to instead submit the offer to the High Privatization Council is thus viewed as a sign that the government may let the sale go through.

3. (SBU) The issue was muddied, however, on January 14, by the announcement by the losing bidder, the Anadolu Consortium, that it would raise its offer above 1.3 billion USD. PA officials swiftly rejected the overture, noting that such an action is legally impossible, and would require cancellation of the tender and reopening of the process, something it is loath to do after the highly publicized failures of the Tekel and Petkim privatizations. There may be other challenges as well, however, including legal ones. Though Ahmet Zorlu indicated there were no plans for redundancies at Tupras, the union representing many of the company's employees indicated that it would go to court to void the sale.

4. (SBU) If analysts view the bid amount for Tupras as reasonable, there is wide speculation about the sudden decision of Zorlu, whose holding is only peripherally involved in the energy sector, to join forces with Tatneft at the last minute. Bender Securities Research Director Murat Gulkan, without naming names, speculated that Zorlu may be operating as a front for the "largest downstream distributor" in Turkey-- i.e. the Dogan Group. He further conjectured that down the road there may be a share exchange that would permit Dogan to create a vertically integrated empire with his Petrol Ofisi gas distribution chain. If true, this might also explain the persistent interest of Karamehmet's Cukurova group, given his longstanding differences with Dogan.

5. (SBU) Comment: Though the tender was arguably successful in attracting bids that represent a reasonable valuation of the company, other elements of the tender process raise

questions. The Zorlu Group's ability to join the bidding on the eve of the tender's announcement raises questions about the entire process, as does the ability of a holding group (Cukurova) that bankrupted two banks and still owes the government billions of dollars to qualify as one of the final two bidders. Finally, some may be concerned about the prospect of a Russian company entering the Turkish energy market in a big way. Despite these caveats, most analysts believe that approval of the sale is critical to the credibility of the government's privatization program, and are thus looking for its ultimate approval. End Comment.
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